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DEPT PASS TO USTR - DHARTWICK/CLILIENTFELD/AADLER
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SUBJECT: USTR AMBASSADOR SCHWAB MEETS WEST BENGAL CHIEF MINISTER AND
LOCAL FARMERS

REF: A) NEW DELHI 1771 B) NEW DELHI 1774

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¶1. (SBU) Summary: On April 14 U.S. Trade Representative (USTR) Ambassador Susan Schwab visited West Bengal (WB) to understand local views on India's trade interests and the conditions of its agricultural sector. During her visit, Amb. Schwab met with WB Chief Minister (CM) Buddhadeb Bhattacharjee, visited a successful PepsiCo/Frito-Lay factory and interacted with farmers and villagers at a local agricultural center. In his conversation with Amb. Schwab, CM Bhattacharjee quickly acknowledged the importance of globalization and the need to increase trade between the U.S. and India. He believed that "protectionism would not work," and Ambassador Schwab encouraged the CM, who has a close relationship with PM Manmohan Singh, to send that message to officials in New Delhi. At the Frito-Lay factory, Ambassador Schwab saw how U.S. investment has helped to provide stable incomes for local farmers and has enhanced agricultural productivity. While at an agricultural center run by a local non-government organization (NGO) Ramakrishna Mission, Amb. Schwab learned about the condition of local farmers: that the average farm is less than one acre in size and that farm incomes are marginal. Amb. Schwab's visit allowed her to hear firsthand that state officials are more open to trade than the position put forward by Union Commerce and Industries Minister Kamal Nath and that potentially state leaders like CM Bhattacharjee can be used to encourage greater GOI flexibility on economic reform and trade negotiations. End Summary.

West Bengal Chief Minister Favorable to Trade and Commerce With
the U.S.

¶2. (SBU) USTR Amb. Schwab led a delegation of USTR officials, including Deputy USTR Amb. Peter Allgeier and Assistant USTR Amb. Douglas Hartwick, to Kolkata, WB on April 14 for a one-day visit to better understand local perspectives on trade relations. WB has one of the fastest growing state economies in India and is a leading agricultural producer. It is governed by the Communist Party of India (Marxist), which supports the national ruling United Progressive Alliance (UPA) from outside the coalition, giving the CPM a significant degree of influence over national policies. The state's role in agriculture, a key issue in trade negotiations with India, and the high profile of pro-economic reform, CM Bhattacharjee provided an excellent opportunity to convey a pro-trade agenda that will hopefully resonate at the national level.

¶3. (SBU) Amb. Schwab spoke with CM Bhattacharjee at his offices for almost an hour, and he was very positive about the need for promoting greater Indo-U.S. trade. The CM noted that "globalization is a must" and that no country should avoid the process as "protectionism would not work." He believed that developing countries required a level playing field to compete and added that this was a key issue for trade relations. However, India should be responsive to expanding trade. Bhattacharjee noted that the CPM opposed strategic cooperation with the U.S. and questioned the civil nuclear agreement but

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that close commercial relations would be beneficial. He knew that Amb. Schwab was to visit a Frito-Lay factory and described it as a success and added that many U.S. IT companies were also present in WB, such as IBM, Apple and Cognizant. The CM mentioned that WB was interested in the potential to export mangoes and other fruit as well as leather goods. The CM commented that he was considering traveling to the U.S. but that he wanted to have specific business agreements to sign should he go. He was anxious to have Dow Chemical and Boeing Aircraft establish a business presence in WB. He was also pursuing educational cooperation with Berkeley University and the Massachusetts Institute of Technology (MIT).

¶4. (SBU) Amb. Schwab asked for CM Bhattacharjee's views on the agriculture sector in India and the fact that almost 600 million people are dependent on agriculture, and yet it contributes just approximately a quarter of the Gross Domestic Product (GDP). Bhattacharjee said some effort needs to be made to help the farmers, citing farmer suicides in Maharashtra and Andhra Pradesh. Amb. Schwab noted that Minister Nath was reluctant to open India's agriculture market. CM Bhattacharjee saw only three products that were problematic: cotton, sugar and ground nuts; crops which WB and many other states did not produce to a large extent, which meant that there was room for "give and take" in discussions on agriculture. Amb. Schwab asked CM Bhattacharjee to convey that message to Minister Nath and to the Prime Minister. CM Bhattacharjee commented that Finance Minister Chidambaram and PM Singh would push reforms forward and hopefully bring some flexibility to the trade negotiations.

¶5. (SBU) Turning to financial services, Ambassador Schwab noted that permitting greater FDI in this sector would benefit India's

ability to generate funds to step up much needed investment in infrastructure. "West Bengal itself would benefit significantly," she stated. The Chief Minister listened intently but responded simply that financial sector reforms were proceeding although somewhat slowly.

Frito-Lay Improves Farmers' Incomes and Lives

¶6. (U) Following the meeting with the Chief Minister, Amb. Schwab and delegation visited PepsiCo's Frito-Lay factory, located in Howrah district, about 20 km from Kolkata. The factory has been successful in addressing the fundamental problem of creating efficiencies of scale, in a state where the average farm is only about an acre in size. Frito-Lay organized cooperatives with local farmers and through formal contracts has guaranteed incomes. PepsiCo officials led by Operations Director Samiran Das briefed Amb. Schwab about the factory and its experience. The delegation then took a tour of the facilities and spoke with farmers who supply potatoes to the factory. Amb. Schwab was briefed on the contractual agreement between the farmers' groups and the company and how such contracts have resulted in greater returns compared to earlier, when they had to sell the harvest to middlemen at fluctuating prices. Starting with 140 farmers and 700 acres in 2003,

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Frito-Lay is now working with 4,000 farmers including 1,700 under 10 cooperatives and 13,000 plots totaling 2,100 acres. Farm practices have improved, with inputs and guidance from Frito-Lay, helping the farmers to increase the productivity and the quality of their potatoes.

Ramakrishna Mission Agriculture Center Provides a Window on Farmers' Lives

¶7. (U) To better understand the plight of the average farmer and village family and to demonstrate her interest in their well-being to local press covering the event, Amb. Schwab visited a 20-acre agricultural center located in Arapanch village, about 30 km south of Kolkata in South 24 Parganas district. The NGO Ramakrishna Mission runs the center to provide agricultural and vocational training, as well as basic public health and education assistance. In 2004, Mission India's Public Affairs Office provided USD 54,000 for model agricultural projects. Amb. Schwab spoke with the farmers, met women's self help groups and pre-school children. The farmers explained to Amb. Schwab that the average farm size around Arapanch is about half an acre. These farms usually have to support 4-5 people. The village is located on the outer fringe of the Sunderbans delta and suffers from brackish water. As a result, Arapanch and its surrounding areas are usually water-stressed, yielding just a single rice crop a year. The center educates local farmers about sustainable farming technology, water harvesting, and multi-cropping. Due to the training, Arapanch fields now produce sunflower, pulses and vegetable along with its traditional rice crop. Multi-cropping has helped to increase the farmers' meager incomes of approximately USD 150 per month and has given them greater

security by allowing for cultivation throughout the year.

Indian State Leaders Can Carry the U.S. Trade Message

18. (SBU) Comment: CM Bhattacharjee's desire for more trade with the U.S. and his view that trade negotiations between India and the U.S. required more "give and take" reflected a greater flexibility and positive disposition than evidenced by the GOI position typically put forward by Minister Nath. Given Bhattacharjee is a leading figure in the often anti-U.S. CPM and a member of the party's Politburo, his receptive views on trade with the U.S. further underlines the rigidity of the GOI trade position. In addition, disputes over specific crops subsidies, such as on sugar or cotton, do not resonate with all states in India. Bhattacharjee intimated in his comments to Amb. Schwab that he did not see why differences over cotton for example

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should block future trade negotiations. The interaction with CM Bhattacharjee highlighted the potential value in engaging with state-level leaders, who take a more practical position on trade matters, and to have them lobby the GOI leadership to moderate its position on future trade negotiations. State leaders may help to carry a message to the GOI that their constituencies would suffer, if trade negotiations in the World Trade Organization's (WTO) Doha round failed.

19. (U) This cable was cleared by Ambassador Schwab's delegation.JARDINE